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SUBJECT: PRESENTATION BY NASDAQ MANAGING DIRECTOR ON URUGUAYAN
CAPITAL MARKETS DEVELOPMENT

Ref: Montevideo 303

¶1. SUMMARY: Steven Phillips, Managing Director of NASDAQ and an experienced financier, came to Montevideo to participate in the Innovation Forum (reftel) and to discuss ways in which Uruguay could revitalize its moribund capital markets. In a presentation to the Capital Markets Development Group, he emphasized that listing on NASDAQ could not only provide Uruguayan firms with more access to capital, but also have a significant impact on development of local capital markets and economic growth. His presentation dovetailed nicely with the information the Embassy has been providing to a public-private working group seeking to develop the local capital market as a way to provide Uruguayan firms with the capital necessary for expansion and growth into new markets. END SUMMARY.

¶2. Although Uruguay retreated from capital markets development after the financial disasters of 2002-2003, the participants in the Capital Markets Development Group presentation -- including the government-owned Banco de la Republica, the BROU AFAP (the largest of four investment companies linked to private pension funds), an AFAP regulator from the Central Bank, both stock exchanges, commercial bankers, corporate financial managers, venture capitalists and the World Bank -- were all in strong agreement with Mr. Phillips' message that local capital markets development as well as increased access to international capital markets is critical for Uruguay's future economic growth. NOTE: The Embassy coordinated the initial meetings of the Capital Markets Development Group to bring interested parties together to share ideas on developing this sector. The concept resonated among the group and it continues to meet on its own with the Embassy as a participant but no longer in the lead.

¶3. Phillips highlighted some of the advantages of listing with NASDAQ (or other exchanges) including access to capital, greater visibility with a larger investor group and lower costs. He mentioned, however, that listing on NASDAQ would also require Uruguayan firms to change the way they do business, in particular, in providing greater transparency regarding their business strategies and performance, in complying with GAAP reporting standards and in electing independent board members. Phillips said that a first step that some emerging market firms have taken prior to a full listing is a 144A listing, essentially a placement to sophisticated, high net worth investors that does not have the same reporting, accounting and governance requirements as a full listing. The consensus appeared to be that this would be a good initial option for many Uruguayan firms.

¶4. Phillips pointed out that firms could list both on the local exchange and on NASDAQ and that this would benefit both the firms and the local exchange by increasing visibility, the size of the potential investor market and the number of firms that would be interested in listing. One partner in venture capital firm Prosperitas added that development of local capital markets would also likely spur venture capital and private equity investments because going public would become a more viable exit strategy for these types of investments. Clearly this would drive economic growth as more entrepreneurs are able to fund their ideas. The

Price Waterhouse Coopers representative also emphasized the importance of local capital markets development in order to be able to fund larger projects. Currently, most of these projects are funded through direct investment from Brazilian firms or other international investors. She argued that if Uruguay does not create its own sources of capital through development of its capital markets, it will wind up as a "country owned by foreigners."

¶5. Phillips talked about development of other local exchanges and capital markets and the impact on investment and economic growth citing Chile and Peru as good examples. He mentioned three key factors that are critical to driving growth in local capital markets:

-- Creating opportunities for the private sector to own and trade shares in state-owned companies will create more savings and investment options, will broaden and deepen the market and will drive scale by pushing trading volume through the exchanges. For example, even in BOVESPA, the well developed exchange in Sao Paulo, the bulk of trading still is in government companies such as Petrobras and Banco do Brasil.

-- Increased privatization of pension and retirement plans will create more demand for capital markets instruments - both government and private sector, and both debt and equity. Additionally, Phillips strongly recommended that private pension funds such as the AFAPs need to be given flexibility to invest outside their local markets if they are to optimize growth and returns. He pointed to Chile as an efficient and successful example of this model.

-- Creating a "market maker" function for issued securities will ensure a liquid market so that investors will know that they can get in and out of an investment at any time, thus increasing their

willingness to invest. One of the participants from the Exchanges strongly endorsed this statement, observing that lack of a market maker function back in the market crises of 2002-2003 caused investors to lose faith in the market because of their inability to exit investments on a timely basis. He emphasized that for investors to move back into the market in a significant fashion, they would need to feel confident that they could sell securities at any time at a fair market price.

¶6. Phillips acknowledged that full or partial privatization of state-owned companies is still a political hot potato, but reiterated his opinion that it will be a critical factor in development of Uruguay's capital markets.

¶7. Phillips commented on the evolution of regional exchanges where a number of smaller exchanges join to form a single integrated exchange in order to build scale on the supply side, the investor side and to reduce costs. He cited Nordpool as a good example and said that Uruguay and some of the other smaller Latin exchanges have a similar integration opportunity.

¶8. As a tangible outcome of this well-received presentation and discussion, the Capital Markets Development Group agreed to schedule another working session for August.

MATTHEWMAN